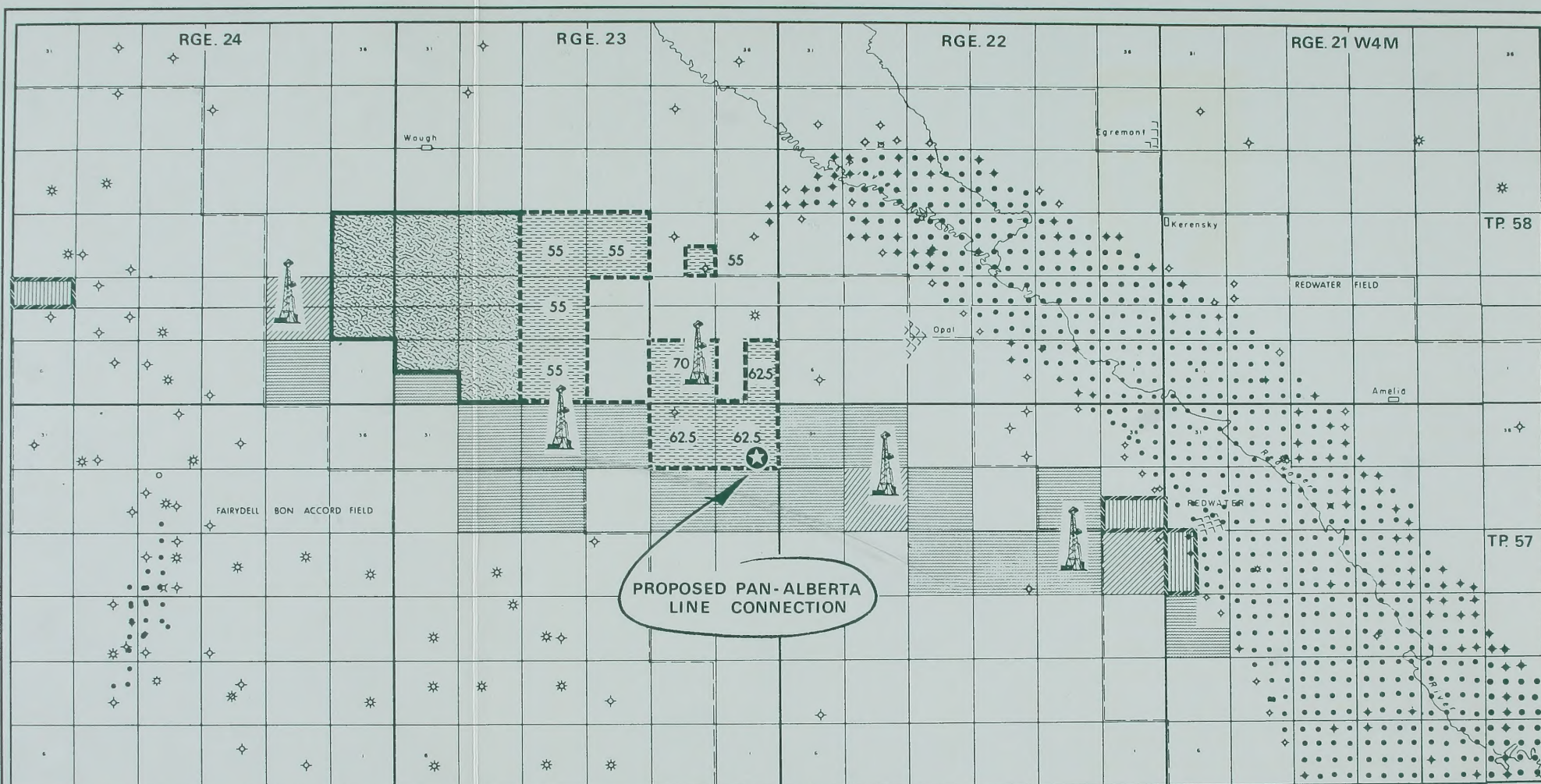


**PERUVIAN
OILS & MINERALS
LIMITED**

**ANNUAL REPORT
1972**



WELL LEGEND

- ✧ ABANDONED
- ✦ ABANDONED OIL WELL
- OIL WELL
- ✧ GAS WELL
-  GAS WELL
-  PERUVIAN INTEREST ACREAGE



55% INTEREST OWNED BY PERUVIAN OILS & MINERALS

ROYALTIES PAYABLE

PERUVIAN ACREAGE

-  CROWN ROYALTY + 10% O.R.R.
-  CROWN ROYALTY + 3% O.R.R.
-  PAN CANADIAN PETROLEUM LIMITED 17.5%
-  CROWN ROYALTY ONLY

PERUVIAN OILS & MINERALS, LIMITED. LAND MAP - OPAL AREA, ALBERTA.

PERUVIAN OILS & MINERALS, LIMITED

DIRECTORS

A. Lyndon Bell, University City, Missouri
Paul C. Cabot, Jr., Boston, Mass.
Howard K. Edwards, Tulsa, Oklahoma
John S. Grant, Toronto, Ontario
Joseph J. Rankin, Toronto, Ontario
Kenneth S. Safe, Jr., Boston, Mass.
Robert L. Segsworth, Toronto, Ontario

OFFICERS

Howard K. Edwards, President
J. J. Rankin, Managing Director
R. L. Segsworth, Vice-President
John S. Grant, Q.C., Secretary
W. Steuerman, C.A., Treasurer

AUDITORS

Clarkson, Gordon & Co., Toronto, Ontario

BANKERS

Canadian Imperial Bank of Commerce,
Toronto, Ontario
National Bank of Tulsa,
Tulsa, Oklahoma

TRANSFER AGENT AND REGISTRARS

The Sterling Trusts Corporation,
Toronto, Ontario
The Canadian Bank of Commerce Trust Company,
New York, N.Y.

OFFICES:

Toronto, Ontario:
Suite 600, 85 Richmond Street West
Tulsa, Oklahoma:
9511 East 46th Street

SHARES LISTED:

Toronto Stock Exchange (Ticker Symbol: PER)
U.S. Markets: Over-the-Counter

Directors' Report



HOWARD K. EDWARDS,
President

To The Shareholders:

This report covers your company's activities for the past year and includes the financial statements covering the fiscal year ending December 31, 1972.

There have been some dramatic changes in our Opal area, Alberta, holdings since our last report to you. Your company has completed the purchase of the Mesa Block and this brings total combined acreage held in the area to 23,700 acres. We have also entered into a gas purchase contract with Pan-Alberta Gas Ltd. to deliver approximately 35 million cubic feet of gas per day at 38¢ per thousand cubic feet, starting in the fall of 1974 and escalating at one cent per thousand cubic feet per year for a five-year period. This contract is subject to Pan-Alberta obtaining approval of an export permit from Canadian regulatory authorities to deliver natural gas into the United States. It is our understanding that an application for this permit has been filed.

Upon approval of the permit, your company will need to drill several more wells, lay approximately 20 miles of gathering system and install a compressor station. The fulfillment of this contract will change the econo-

Directors' Report

HOWARD K. EDWARDS,
President



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Upon approval of the permit, your company will need to drill several more wells, lay approximately 20 miles of gathering system and install a compressor station. The fulfillment of this contract will change the econo-

mics of this field in favor of your company. Early contract negotiations were based on 12½¢ per thousand cubic feet. The table, giving the company's proven gas reserves indicates net cash flow based on 12½¢ per thousand cubic feet, compared to 38¢ per thousand cubic feet.

	<u>Company's Interest at 38¢/Mcf</u>	<u>Company's Interest at 12½¢/Mcf</u>
Gross reserves		
(MSCF)		
January 1, 1973	27,674,000	27,674,000
Net reserves		
(MSCF)	18,221,000	18,221,000
Net cash flow	\$ 6,923,980	\$ 2,420,000

This summary reflects the improvement in your company's interest in this field. It is anticipated that the gathering system and compressor station will be financed through bank financing or debentures.

Peruvian Oils & Minerals has just completed drilling two wells in Ohio — the Lewis #1 in Bennington Township, Morrow County, which resulted in a dry hole, and the Emanuel Troyer #1 in Clark Township, Holmes County.

The Troyer #1 was a discovery well in the Clinton Sand. It had an open flow of 1,360,000 cubic feet of gas and a shut-in pressure of 1,275 pounds. This well was drilled on a 2677-acre block and we now have an off-set location staked and plan to start drilling operations immediately. A gas purchase contract has been signed with our 50% partner, East

Ohio Gas Company, for 48¢ per thousand cubic feet, and the well is in the process of being connected. Management estimates that there are approximately 15 locations to be drilled.

In the North Sea, Whiterock Oil and Gas Limited and its partners have completed their preliminary seismic program and it is now being evaluated. The Whiterock concession is located in the United Kingdom continental shelf, near the Norwegian boundary. Peruvian owns 40% of Whiterock and Whiterock has an undivided 50% interest in this license of 55,000 acres.

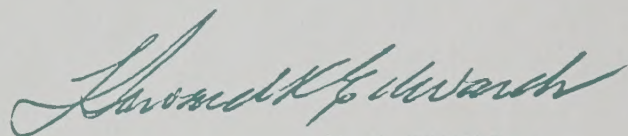
We are pleased to announce the appointment of two new directors. Mr. Paul C. Cabot, Jr. a general partner in the investment banking firm of F. S. Moseley & Company and Mr. Kenneth S. Safe, Jr., trustee in the firm of Welch & Forbes. Both directors are from Boston, Massachusetts.

It is the goal of management to have a profitable 1973 and to increase our oil and gas reserves through drilling activities. In view of

the energy crisis in both Canada and the United States, your management believes that now is an excellent time to increase its exploration programs. We plan to concentrate our efforts in areas that have good reserve potential as well as a ready market for petroleum products.

Therefore, your company proposes to form a limited partnership drilling program of \$1,300,000, with Peruvian acting as general partner. It is contemplated that these funds will be spent in northeastern Ohio, primarily in search of gas reserves. Your company has one-quarter working interest.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "Howard K. Edwards", written in a cursive style.

H. K. EDWARDS,

President.

May 15, 1973.

PERUVIAN OILS & MINERALS, LIMITED

(Incorporated under the laws of Ontario)

BALANCE SHEET

ASSETS

	December 31	
	1972	1971
CURRENT:		
Cash and funds on deposit	\$ 1,495	\$ 142,060
Accounts receivable and accrued interest	9,528	71,467
Prepaid expenses	11,680	17,850
Total current assets	<u>22,703</u>	<u>231,377</u>
PROPERTY AND EQUIPMENT — at cost less accumulated depreciation and depletion (schedule 1)	101,496	105,166
DEFERRED EXPLORATORY AND DEVELOPMENT COSTS	244,413	301,615
INVESTMENT IN JOINT EXPLORATION VENTURE COMPANY (note 2) ..	<u>20,267</u>	<u>4,000</u>
OTHER ASSETS:		
Deposits	7,355	10,001
Application for mining claims — Peru		1,274
Investment in other mining and oil exploration companies — at cost (note 2)	42,604	42,604
Total other assets	<u>49,959</u>	<u>53,879</u>
	<u>\$ 438,838</u>	<u>\$ 696,037</u>

LIABILITIES

CURRENT:		
Bank loan (note 3)	\$ 78,000	
Accounts payable and accrued liabilities	39,958	\$ 165,232
Total current liabilities	<u>117,958</u>	<u>165,232</u>
SHAREHOLDERS' EQUITY:		
Capital (note 4) —		
Authorized:		
5,000,000 shares without par value		
Issued:		
2,931,671 shares	2,637,584	2,637,584
Deficit	2,316,704	2,106,779
	<u>320,880</u>	<u>530,805</u>
	<u>\$ 438,838</u>	<u>\$ 696,037</u>

On behalf of the Board:

"H. K. EDWARDS", Director.

"J. S. GRANT", Director.

(See accompanying notes)

Statement of Operations and Deficit

	Year ended December 31	
	1972	1971
INCOME:		
Loss from oil and gas production (schedule 2)	\$ (396)	\$ (1,087)
Interest income and sundry credits	2,001	3,283
Total income	<u>1,605</u>	<u>2,196</u>
GENERAL AND ADMINISTRATIVE EXPENSES:		
Salaries and directors' fees	1,588	300
Accounting, office services and rent	27,956	21,000
Interest and bank charges	745	5,589
Legal and audit	8,135	9,247
Transfer agency	6,191	2,620
Publicity	3,654	2,215
Travel	7,926	5,649
Reports to shareholders and meetings	7,226	7,782
Depreciation	14	
Other	7,654	3,596
Total general and administrative expenses	<u>71,089</u>	<u>57,998</u>
OPERATING LOSS FOR YEAR	<u>69,484</u>	<u>55,802</u>
OTHER CHARGES AND CREDITS:		
Write-off (1971 — provision for write-off) of certain oil concessions and related exploratory and development costs in Peru (net)	78,137	52,568
Other exploratory and development costs written off	40,355	38,587
Investment in joint exploration venture written off (note 2)	21,949	
Property and equipment written off — Ohio		14,905
	<u>140,441</u>	<u>106,060</u>
Deduct gain on disposal of oil leases and equipment in the Pembina field — Alberta		1,046
	<u>140,441</u>	<u>105,014</u>
Net loss for year (per share 1972 — \$0.07; 1971 — \$0.06)	209,925	160,816
DEFICIT, beginning of year	<u>2,106,779</u>	<u>1,945,963</u>
DEFICIT, end of year	<u>\$2,316,704</u>	<u>\$2,106,779</u>

(See accompanying notes)

Statement of Changes in Financial Position

	Year ended December 31	
	1972	1971
SOURCE OF FUNDS:		
Interest income and sundry credits	\$ 2,001	\$ 3,283
Income (loss) from oil and gas production (396)		
Add charges against income not involving a current outlay of funds —		
Depreciation, depletion and amortization 5,813	5,417	23,385
Proceeds from disposal of oil leases and equipment in the Pembina field — Alberta		375,000
Reduction in net current liabilities on write-off of Peruvian assets ..	39,690	
Recovery of guarantee deposits — Peru		7,968
Disposal of equipment		3,942
Reduction of drilling deposit	2,646	
	<u>49,754</u>	<u>413,578</u>
APPLICATION OF FUNDS:		
General and administrative expenses 71,089		
Less depreciation	14	
Exploratory and development costs	71,075	57,998
Purchase of oil leases (net of rebates received) — Alberta	67,249	180,417
Purchase of furniture and fixtures	34,472	(7,584)
Advances to joint exploration venture (note 2)	142	
Increase in drilling deposits	38,216	4,000
	<u>211,154</u>	<u>236,814</u>
Increase (decrease) in working capital	\$ (161,400)	\$ 176,764
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase (decrease) in current assets —		
Cash and funds on deposit	\$ (140,565)	\$ 98,485
Accounts receivable and accrued interest	(61,939)	(15,905)
Prepaid expenses	(6,170)	14,868
	<u>(208,674)</u>	<u>97,448</u>
Increase (decrease) in current liabilities —		
Bank loans	78,000	(15,000)
Other loans		(120,000)
Accounts payable and accrued liabilities	(125,274)	55,684
	<u>(47,274)</u>	<u>(79,316)</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(161,400)	176,764
WORKING CAPITAL (DEFICIENCY), beginning of year	66,145	(110,619)
WORKING CAPITAL (DEFICIENCY), end of year	<u>\$ (95,255)</u>	<u>\$ 66,145</u>

(See accompanying notes)

Statement of Deferred Exploratory and Development Costs

FOR THE YEAR ENDED DECEMBER 31, 1972

	Balance December 31, 1971	Additions in 1972	Written off in 1972	Balance December 31, 1972
Exploratory and development expenses in Peru	\$ 77,942	\$ 4,673	\$ 82,615	
Exploratory and development expenses in Ohio:				
Total development expenses	15,197			\$ 15,197
Less accumulated amortization	8,661	1,481		10,142
	<u>6,536</u>	<u>(1,481)</u>		<u>5,055</u>
Exploratory and development expenses in the Opal field in Alberta	<u>142,724</u>	<u>38,509</u>		<u>181,233</u>
Joint venture and other explorations:				
In Peru	56,413	1,573		57,986
Other countries	18,000	22,494	40,355	139
	<u>74,413</u>	<u>24,067</u>	<u>40,355</u>	<u>58,125</u>
	<u>\$ 301,615</u>	<u>\$ 65,768</u>	<u>\$ 122,970</u>	<u>\$ 244,413</u>

(See accompanying notes)

Auditors' Report

To the Shareholders of
Peruvian Oils & Minerals, Limited:

We have examined the balance sheet of Peruvian Oils & Minerals, Limited as at December 31, 1972 and the statements of operations and deficit, deferred exploratory and development costs and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1972 and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
April 6, 1973.

CLARKSON, GORDON & CO.,
Chartered Accountants.

Notes to the Financial Statements

DECEMBER 31, 1972

1. Significant accounting policies

FOREIGN EXCHANGE

The financial statements are expressed in terms of Canadian currency. Assets and liabilities and revenues and expenses in currencies other than Canadian dollars are translated into Canadian funds on the following bases:

Current assets and current liabilities —

At the closing rate of exchange prevailing at December 31 in each year.

Expenditures on property and equipment and deferred exploration and development —

At the rates of exchange in the years in which expenditures were made.

Revenues and expenses —

At the average rates of exchange for the year, except that provisions for depreciation, depletion and amortization and exploratory and development costs, property and equipment, and other costs written off are at the rates prevailing when the relative expenditures were made.

EXPLORATORY AND DEVELOPMENT COSTS

It is the corporation's general policy to defer exploratory and development costs in the accounts when incurred, and to write off against income in each year the exploratory and development costs relating to projects that are then either abandoned or considered to be of no value.

Deferred exploratory and development costs relating to producing properties are amortized at the same rate used for depletion of the related property.

PROPERTY AND EQUIPMENT AND RELATED DEPRECIATION AND DEPLETION

The costs of new property and equipment are capitalized. Expenditures for main-

tenance and repairs of property and equipment are charged to operations.

When properties are retired or disposed of, it is the corporation's general policy to remove from the accounts the cost and accumulated depreciation and depletion of such properties as well as the related deferred exploratory and development costs, and to record the resulting gain or loss in income for the year.

Depreciation is provided on office furniture and fixtures at 20% on a declining balance basis. No depreciation or depletion is provided on other property, unless production has been derived from such property. Depreciation and depletion on lease costs and operating wells are provided on net unamortized cost, at rates based on the percentage of the quantity of oil produced during the year to the quantity of the estimated recoverable oil reserves at the beginning of the year. This is commonly known as the unit of production method.

INCOME TAXES

The corporation's accounting policy with respect to income taxes is referred to in note 5 below.

2. Investments

The corporation's investment in a joint exploration venture company consists of:

Whiterock Oil and Gas Limited —

40 shares (40% owned)	\$ —
Advance	20,267
	<u>\$ 20,267</u>

The investment is carried at an amount equal to the corporation's equity in the costs incurred by Whiterock in a joint exploration project in the North Sea. Resi-

dual costs of \$21,949 relating to a previous project carried on by Whiterock have been written off by the corporation during the 1972 year.

The investment in and advance to other mining and oil exploration companies is comprised of:

Antipodes Explorations Limited —		
278,319 shares, at cost	39,325	
5% redeemable convertible de- bentures due September 1, 1975, at cost ..	<u>1,121</u>	\$ 40,446
Antaeus Resources Corporation —		
589 shares, at cost	<u>2,158</u>	
		<u>\$ 42,604</u>

No reliable market quotations are available for the above shares and debentures.

3. Bank loan

The company's interest in its Alberta properties and certain accounts receivable have been pledged as security against the bank loan.

4. Stock options

During 1972 the president of the corporation was granted an option to purchase a total of 150,000 shares of the corporation at a price of 50¢ per share, exercisable at the rate of 50,000 shares, on a cumulative basis, in each of the years ending June 30, 1973 to 1975 inclusive.

5. Income taxes

In arriving at reported earnings, the corporation computes income taxes on the basis of claiming exploration and development expenditures to the extent that they are an allowable deduction for tax purposes in the year, regardless of the treatment followed in the accounts.

As is the case with other companies in the industry in Canada, the corporation does not believe that tax allocation in respect of exploration and development costs is appropriate at this time. Accordingly, no provision has been made for deferred income taxes for timing differences involving such costs.

If the tax allocation basis had been followed with respect to such costs in current and prior years, the net loss for 1972 would have been reduced by \$23,000 or \$.01 per share and the cumulative amount of deferred income taxes to December 31, 1972 related to such costs net of other timing differences would be \$14,000.

Of the property and equipment and deferred exploratory and development costs carried in the accounts at \$345,909 at December 31, 1972, \$267,829 related to expenditures made in Canada and \$78,080 related to expenditures made outside Canada. For Canadian income tax purposes \$181,800 of the expenditures are available as an offset against income otherwise subject to tax in future years.

Accumulated tax losses aggregating \$59,000 (the major part of which expires in 1977) are also available as an offset against future taxable income.

Schedule of Property and Equipment

SCHEDULE 1

	Year ended December 31	
	1972	1971
SOUTH AMERICA:		
Peru — Oil concessions — net		\$ 33,938
— Office furniture and fixtures — at cost		
less accumulated depreciation		1
Total property in South America		33,939
CANADA:		
Alberta — oil leases — at cost (note 3)	\$ 86,596	52,124
UNITED STATES:		
Ohio — oil leases — at cost	41,003	
Less accumulated depletion	27,189	13,814
Machinery and equipment — at cost	2,240	
Less accumulated depreciation	1,282	958
Oklahoma — office furniture and fixtures — at cost	142	
Less accumulated depreciation	14	128
Total property in the United States	14,900	19,103
Total property and equipment	\$ 101,496	\$ 105,166

Schedule of Income from Oil and Gas Production

SCHEDULE 2

	Year ended December 31	
	1972	1971
Sale of crude oil and natural gas	\$ 7,902	\$ 48,945
PRODUCTION EXPENSES:		
Operating expenses	1,301	19,629
Lease rental expenses		543
Field facility and gas collection expenses		2,129
Insurance and taxes	1,185	3,259
Depletion of oil leases	4,049	13,145
Amortization of development costs	1,482	5,183
Depreciation of machinery and equipment	281	6,144
Total production expenses	8,298	50,032
INCOME (LOSS) FROM OIL AND GAS PRODUCTION	\$ (396)	\$ (1,087)

(See accompanying notes)

**PERUVIAN OILS & MINERALS LIMITED
ANNUAL REPORT/1972**

